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SOGEPET LIMITED

سوپت



1976
ANNUAL REPORT



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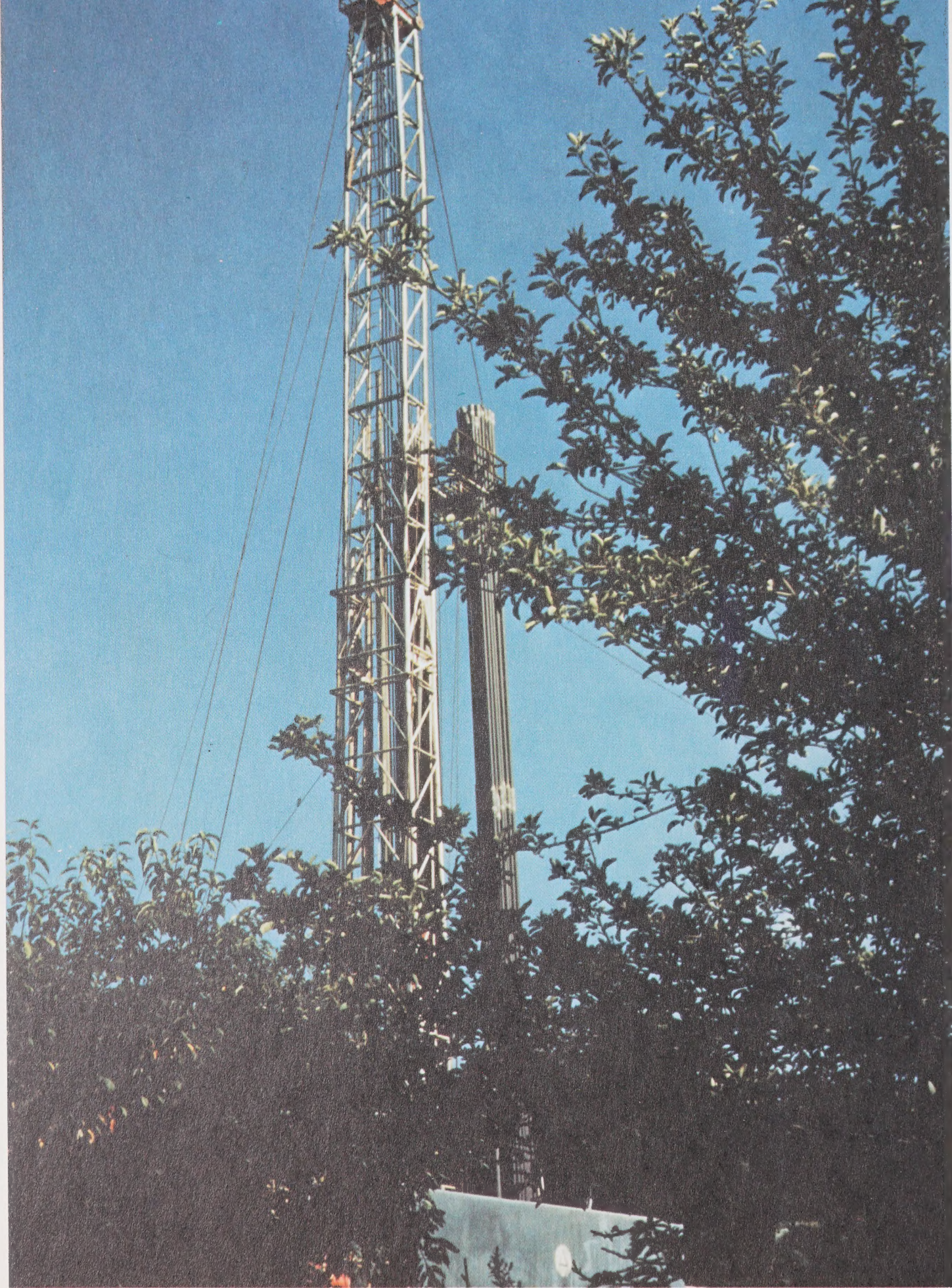
SOGEPET LIMITED

Head Office
170 Bloor Street West, Suite 418
Toronto, Ontario, Canada
M5S 1T9

DIRECTORS	DOUGLAS A. BERLIS, Q.C. J. IVAN CUTHILL DR. FRANC. R. JOUBIN WILLIAM F. MITCHELL ARTHUR E. WOOTTON EDWARD W. H. TREMAIN
OFFICERS	DR. FRANC. R. JOUBIN, <i>President</i> WILLIAM F. MITCHELL, <i>Vice-President</i> MRS. C. A. WOLF, <i>Secretary-Treasurer</i>
LEGAL COUNSEL	MANLEY, GRANT & CAMISSO
TRANSFER AGENT	GUARANTY TRUST COMPANY OF CANADA TORONTO, ONTARIO
AUDITORS	LAVENTHOL & HORWATH

Wholly-owned subsidiary: SOGEPET U.S.A. INC.

DIRECTORS	J. IVAN CUTHILL FRANC. R. JOUBIN WILLIAM F. MITCHELL
OFFICERS	DR. FRANC. R. JOUBIN, <i>President</i> J. IVAN CUTHILL, <i>Vice-President</i> JAMES P. MANLEY, Q.C., <i>Secretary</i> MRS. CHARLOTTE A. WOLF, <i>Treasurer</i>
LEGAL COUNSEL	MANLEY, GRANT & CAMISSO
AUDITORS	LAVENTHOL & HORWATH



SOGEPET LIMITED

Directors' Annual Report 1976

To the Shareholders of Sogepet Limited:—

Activity during the year was directed to the Hudson Bay region of Canada and, more importantly, to the Chautauqua region of New York State, U.S.A.

In regard to the Hudson Bay region, our activities were limited to geophysical data compilation, correlation and structural re-interpretation involving only modest field activity. This relative inactivity is forced upon us by the twin restraints of Government work moratoria still imposed upon much of our acreage and the continuing absence of new Government Regulations to replace those suspended several years ago for the controls of exploration on Federal off-shore acreage.

Fortunately, we have been able to conduct an effective and successful exploration program during this interval in northeastern U.S.A., through our wholly-owned American subsidiary, Sogepet U.S.A. Inc.

During 1976, as a 31.25% participant in the Chautauqua Group, we drilled three exploratory wells on two State leases, totalling 2,380 acres, in Chautauqua County, New York, all of which were successfully completed as Medina sandstone formation gas wells. To date of this report, three additional development wells have been drilled and logged but are not yet treated and tested. Drilling of development wells continues. The acreage currently held allows for the spacing of twenty production wells. This will be a new productive gas sector for the State and will be known as the Panama Field. Additional acreage favourable for Medina gas production is being secured.

The capital requirement for the development program is estimated to be \$1.5 million. Our portion of this cost will probably be financed by loans through Sogepet U.S.A. Inc.

Gas marketing negotiations are expected to be finalized in mid-1977, and production from the Panama Field is anticipated before the end of the year.

The Appalachian Group activity was restricted to seismic up-grading of the existing prospects and minor land acquisition during 1976. Additional geophysics and resumption of drilling on exploratory prospects are planned for 1977, and expansion of activities into western New York, Ohio, Pennsylvania and Virginia are under study.

We enclose in this Annual Report a table of all exploratory acreages held as of March 15, 1977, both in Canada and the U.S.A.

On behalf of the Board

FRANC R. JOUBIN
President

April 4, 1977

SOGEPET

(Incorporated under th

Consolidated Balance Sheet -

ASSETS		1976	1975
CURRENT:			
Cash		\$ 45,600	\$ 32,091
Deposit receipts		240,000	428,000
Accrued interest		4,210	8,380
Accounts receivable		864	1,049
		<u>290,674</u>	<u>469,520</u>
Work deposits on petroleum and natural gas exploratory permits (Note 3)		<u>131,450</u>	<u>131,450</u>
CAPITAL ASSETS:			
Petroleum and natural gas interests, at cost (Note 4)		78,883	78,883
Deferred exploration and administrative expenditures		3,076,482	2,790,948
Advances re drilling program		—	27,718
		<u>3,155,365</u>	<u>2,897,549</u>
Less net proceeds from sale of interest in petroleum and natural gas exploratory permits		<u>317,500</u>	<u>317,500</u>
		<u>2,837,865</u>	<u>2,580,049</u>
Organization expenses of subsidiary		3,322	3,322
		<u>\$3,263,311</u>	<u>\$3,184,341</u>

LIMITED

(s of Ontario)

December 31, 1976

LIABILITIES

	1976	1975
CURRENT:		
Accounts payable	\$ 11,913	\$ 9,348
Expenses incurred by The Consumers' Gas Company for which company shares are to be issued (Note 5)	863,440	787,035

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 6):		
Authorized:		
5,000,000 Common shares, without par value		
Issued:		
2,258,303 Common shares	2,501,594	2,501,594
DEFICIT	113,636	113,636
	2,387,958	2,387,958
	<u>\$3,263,311</u>	<u>\$3,184,341</u>

See accompanying notes.

On behalf of the Board:

FRANC. R. JOUBIN, (Director)

ARTHUR E. WOOTTON, (Director)

SOGEPET LIMITED

CONSOLIDATED DEFERRED EXPLORATION AND ADMINISTRATIVE EXPENDITURES

Year Ended December 31, 1976

EXPLORATION EXPENDITURES:	1976	1975
Hudson and James Bay Areas:		
Exploratory well drilling and related costs	\$ —	\$ 41,054
Geophysical and geological surveys and studies	141,500	292,745
Group exploration expenditures	141,500	333,799
Less other participants' share	114,730	286,151
Company's share of expenditures	26,770	47,648
Engineering and geological services	41,470	35,536
Lease rentals	—	677
Miscellaneous	174	1,453
	<u>68,414</u>	<u>85,314</u>
Appalachian and Chautauqua Areas, U.S.A.:		
Exploratory well drilling	510,646	102,465
Geophysical and geological surveys and studies	139,709	293,236
	650,355	395,701
Less other participants' share	470,706	296,266
Company's share of expenditures	179,649	99,435
Engineering and geological services	1,800	3,000
Lease rentals and bonuses	18,812	24,281
	<u>200,261</u>	<u>126,716</u>
Total exploration expenditures	268,675	212,030
Administrative expenditures	60,312	60,239
	328,987	272,269
Less interest income	43,453	49,023
Total expenditures for the year	285,534	223,246
Balance deferred, beginning of year	2,790,948	2,572,422
	3,076,482	2,795,668
Deduct exploration expenditures — outside ventures, written off to deficit	—	4,720
Balance deferred, end of year	<u>\$3,076,482</u>	<u>\$2,790,948</u>
Summary of deferred expenditures:		
Exploration:		
Hudson and James Bay Areas	\$2,559,951	\$2,491,537
Appalachian and Chautauqua Areas	409,146	208,885
	<u>2,969,097</u>	<u>2,700,422</u>
Administrative, net of interest income	107,385	90,526
	<u>\$3,076,482</u>	<u>\$2,790,948</u>

SOGEPET LIMITED

CONSOLIDATED STATEMENT OF DEFICIT

Year ended December 31, 1976

	1976	1975
Balance, beginning of year	\$ 113,636	\$108,916
Add:		
Expenditures on outside ventures written off	—	4,720
Balance, end of year	<u>\$ 113,636</u>	<u>\$113,636</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31, 1976

SOURCE OF FUNDS:	1976	1975
Interest income	\$ 43,453	\$ 49,023
Issue of capital stock	—	10,092
Deposit on application for permits refunded	—	42,833
	<u>43,453</u>	<u>101,948</u>
APPLICATION OF FUNDS:		
Exploration expenditures	268,675	212,030
Less reduction in advances re drilling program	<u>27,718</u>	<u>39,169</u>
	240,957	172,861
Administrative expenditures	60,312	60,239
Work deposits	—	61,000
Advances re drilling program	<u>—</u>	<u>27,718</u>
	301,269	321,818
Less expenditures incurred by The Consumers' Gas Company (Note 5).	<u>76,405</u>	<u>82,383</u>
	224,864	239,435
Organization expenses of subsidiary	<u>—</u>	<u>3,322</u>
	224,864	242,757
Decrease in working capital	181,411	140,809
Working capital, beginning of year	<u>460,172</u>	<u>600,981</u>
Working capital, end of year	<u>\$ 278,761</u>	<u>\$460,172</u>

See accompanying notes.

SOGEPET LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1976

1. CONSOLIDATION:

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, Sogepet U.S.A. Inc.

2. ACCOUNTING POLICY:

As the company and its subsidiary are in the exploration stage, a statement of income is not prepared. Exploration and administrative expenditures, reduced by sundry income, are charged to deferred expenditures as incurred. The company's policy is to make no write-off of acquisition costs and related deferred expenditures when only part of an area of interest is abandoned. The company considers the Hudson and James Bay region as one area of interest and the Appalachian and Chautauqua region as another area of interest; accordingly, no write-offs have been made for permits that have been abandoned.

3. WORK DEPOSITS:

Work deposits at December 31, 1976 consist of the following:

Bank deposit receipts	\$126,500
Cash	<u>4,950</u>
	<u>\$131,450</u>

The bank deposit receipts are pledged as security to the bank which has guaranteed \$116,294 of the company's promissory notes deposited with government departments in lieu of cash work deposits. These notes will be returned to the company in amounts equal to the allowable expenditures made within various stipulated time limits.

The work deposits cover work requirements on acreage under government work variation order.

4. PETROLEUM AND NATURAL GAS INTERESTS:

Petroleum and natural gas exploratory permits, Hudson Bay region	\$ 58,716
Oil and gas leases, Appalachian and Chautauqua Areas, New York and Pennsylvania	<u>20,167</u>
	<u>\$ 78,883</u>

5. AGREEMENT WITH THE CONSUMERS' GAS COMPANY:

- (a) Under an agreement dated July 20, 1971, The Consumers' Gas Company agreed to spend \$2,000,000 over the next three years on gas and oil exploration on licenses in the Hudson and James Bay area in which the company holds an interest. Expenditures by Consumers' to December 31,

1976 amounted to \$1,738,440. The time for completion of the expenditure of the \$2,000,000 has been extended to December 31, 1977.

Consumers' is to receive, for the expenditures incurred, fully paid shares of Sogepet's capital stock from time to time on the following basis:

700,000 shares at \$1.25 per share	\$ 875,000
500,000 shares at \$1.75 per share	875,000
125,000 shares at \$2.00 per share <i>— still active</i>	250,000
<u>1,325,000 shares</u>	<u>\$2,000,000</u>

To December 31, 1976, the company has issued to Consumers' the first 700,000 shares, at \$1.25 per share.

In lieu of expenditures Consumers' may at any time purchase any of the above shares that remain unissued from time to time for cash at the prices indicated.

During the 60-day period after the expenditures have aggregated \$1,750,000, Consumers' has the option to subscribe for additional shares at a price equal to 75% of the average bid price per share during the 90-day period preceding the exercise of the option, so that it will own 51.75% of the then issued capital of Sogepet.

- opt assigned*
- (b) During the term of the agreement with Consumers' Sogepet may not issue shares or grant options for the purchase of shares without the consent of Consumers' except that it may grant its officers, employees and directors options to purchase up to an aggregate of 85,000 shares provided that it grants Consumers' the right to purchase an equal number of shares on the same basis.

6. CAPITAL STOCK:

The following is an analysis of the company's issued capital stock as at December 31, 1976:

	Shares	Amount
For cash	1,314,303	\$1,547,719
For services	94,000	71,375
In consideration for subscribing for preferred shares	150,000	7,500
For expenditures incurred by The Consumers' Gas Company (Note 5(a))	700,000	875,000
	<u>2,258,303</u>	<u>\$2,501,594</u>

7. OFFICERS' AND DIRECTORS' REMUNERATION:

Direct remuneration paid by the company and its subsidiary to the directors and senior officers of the company during the year amounted to \$6,900.

In addition, the company paid \$55,004 to a corporation controlled by the company's Calgary office manager for providing management services and for acting as the company's professional and technical advisor, and providing at its own expense, office facilities including staff for the company's Calgary office.

The company and its subsidiary also paid to a corporation controlled by the company's president, a professional geologist, \$6,000 for engineering and geological services, and \$8,400 for head office rent and administrative services.

AUDITORS' REPORT

To the Shareholders of
Sogepet Limited

We have examined the consolidated balance sheet of Sogepet Limited as at December 31, 1976 and the consolidated statements of deferred exploration and administrative expenditures, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and its activities and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LAVENTHOL & HORWATH

Chartered Accountants.

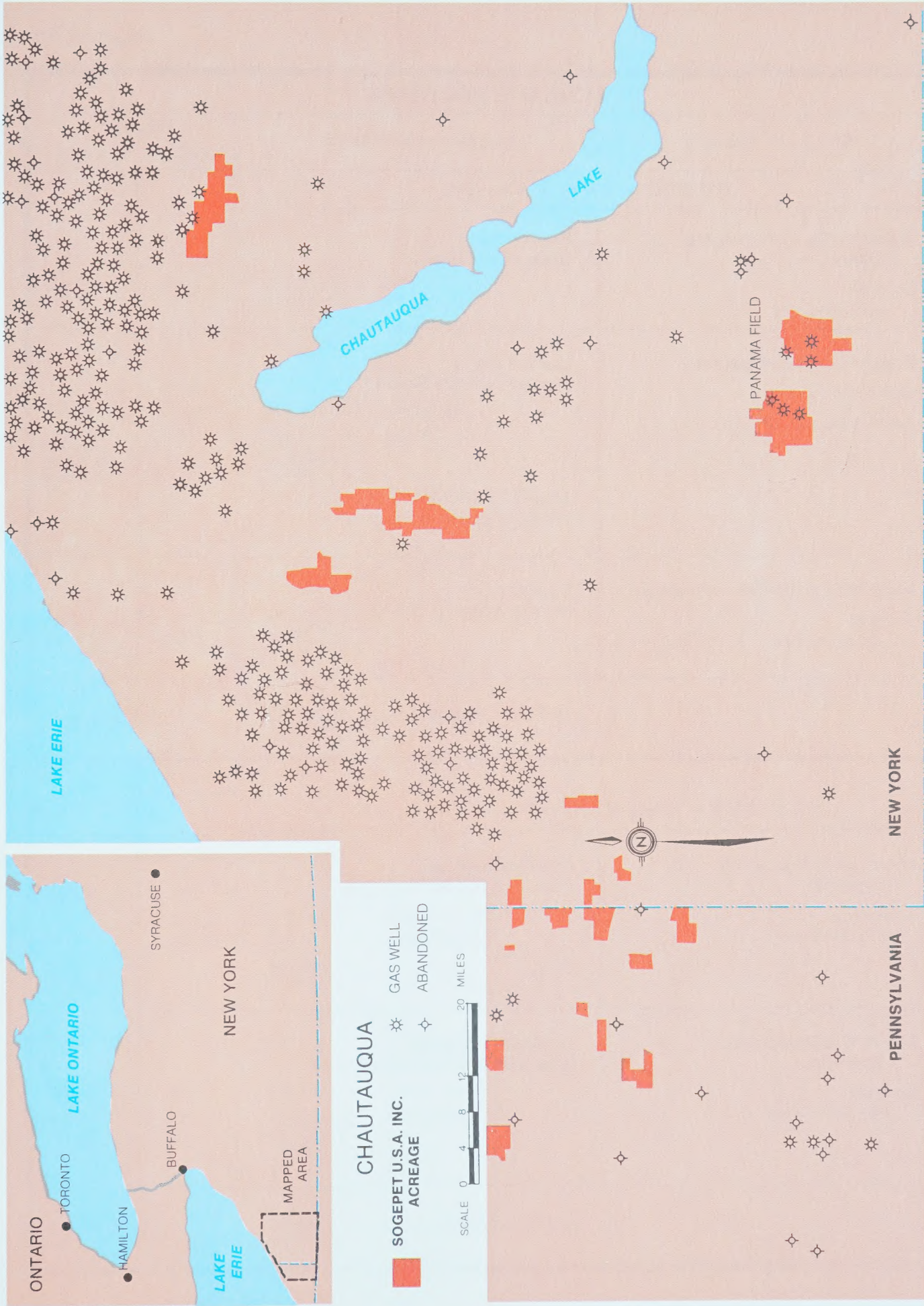
Toronto, Ontario,
January 31, 1977.



CHAUTAUQUA

■ SOGEPET U.S.A. INC. ACREAGE
✱ GAS WELL
✧ ABANDONED

SCALE 0 4 8 12 20 MILES



NEW YORK: Chautauqua County is a historic gas-producing area containing numerous small-volume wells. Three better-than-average gas wells were drilled on the two lease blocks comprising 1,224 acres and 1,156 acres, now called the Panama Field, in which Sogepet has a 30% interest. At least sixteen other wells will be drilled early in 1977. Additional lands are being acquired. Gas sales from this area are expected to start in 1977.

ACREAGE HOLDINGS					
Group and Operator		Location – Gross Acres		Sogepet Equity Net Acres	
HUDSON BAY, CANADA					
Aquitaine Co. of Canada Ltd. –Operator– Sogepet and associates		Hudson Bay – Central Off-Shore 6,267,129		6.6%	413,630
Sogepet Limited –Operator– Teck Corp. Limited Can. Homestead Oils Ltd.		Hudson Bay – Northern Islands Group Off-Shore 3,173,508 On-Shore 312,521 3,486,029 All under Variation (Work Moratorium) Order		33.3% to 60% 60%	1,841,457 187,512 2,028,969
Mobil Oil Canada Ltd. –Operator– Sogepet and associates		Hudson Bay – North Central Off-Shore 1,550,061		2.03%	31,466
TOTAL ACREAGE: Gross 11,303,219					Net 2,474,065
NEW YORK AND PENNSYLVANIA, U.S.A.					
Seis-Ex Geophysical Ltd. –Operator– Sogepet and associates		Appalachian Project New York and Pennsylvania Private Leases 55,529 State Leases 11,675 67,204		25% 25% to 33.3%	13,882 3,144 17,026
Seis-Ex Geophysical Ltd. –Operator– Sogepet and associates		Chautauqua Project New York and Pennsylvania Private Leases 4,470 State Leases 5,311 9,781		30% 30%	1,490 1,770 3,260
TOTAL ACREAGE: Gross 76,985					Net 20,286

